



**THE THIRD  
STAGE of  
IMPERIALISM**

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**50¢**

## PREFACE

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While this booklet is on the surface an analysis of an approaching economic and social crisis in the advanced capitalist sector, it is not intended as any sort of entry in a crystal-ball gazing contest. The crisis dissected here is not just something that may happen during the next five years; it is a process which already determines all the main issues of everyday life. The Vietnam war, the "Negro Question," radicalized youth, urban rot, rising State and Local wage taxation, 35 million Americans in poverty, are all products of an accumulation of economic decay now approaching "critical mass."

This booklet is not a fatalistic prediction, but a statement of the choices before this generation. The Imperialist ruling circles do have a way out of the impending economic crisis; unless there is a socialist leadership with a better program on the scene, with the confidence of trade unionists and other wage earners, some new form of Imperialism will emerge triumphant, as it did in 1946. If that turns out to be fascism, the blame lies on those socialists who could have prepared in time.

What we have to do, therefore, is not simply "take a stand for socialism." It is absolutely *not* true that we have only to make a socialist revolution and then all will be "peaches and cream." American workers are not going to choose socialism because it is socialism. They will decide on the basis of the *program*; if they adopt the socialist's program, they will say, "If this is what you choose to call socialism, then I'm a socialist."

The greatest enemies of socialism turn out to be two widespread illusions. One such illusion is that because workers haven't been radical for a mere two decades, other "con-

stituencies" must be sought. This ignores the fact that masses of workers are radicalized only in those exceptional, recurring, brief periods of actual or approaching crisis. During the long periods of capitalist stability in between, they are always at least passive supporters of capitalism. Not to understand this, and act accordingly, is to throw away any chance of socialist victory before the real fight begins.

Equally dangerous illusions exist concerning *program*. Some socialists believe that the U.S. economy is so productive that something so simple as a redistribution of income will take care of all the major economic questions. Others modify this position by suggesting the peaceful use of war production capacity will provide ample capacity for universal prosperity in this country. On such premises they propose to limit socialist programs to a handful of easily memorized slogans, opposing any analyses (such as that made in this booklet) or programs which can not be digested by anyone at first gulp.

On the contrary, the coming crisis will reveal that the U.S. economy is one of scarcity, lacking the productive capacity to meet the material needs of all of its citizens. Worse, of the productive jobs now in existence, outside the narrow military-industrial sector, most workers depend upon industries whose productive technologies have scarcely improved since the nineteen-twenties. Ours is an economy physically incapable (as it is now organized) of meeting our material needs, an economy decades deep in obsolescence and decay. Without a massive shift of employment from non-productive to productive sectors, without the creation of up to twenty million new jobs in modern plants, the massive needs of our society can not be met. This is the mess produced by the past two decades of capitalism in the U.S.A., which can not be corrected by any simple slogans. Without a scientifically competent program of economic reconstruction of the economy, the socialists will not be able to offer any meaningful solution to the main issues of the coming crisis.

The meaning of the developing capitalist crisis discussed in this booklet is that capitalism in the U.S. has failed to develop production at a sufficient rate to meet the material needs of the whole population. (That is the key to the Black ghetto problem, inadequate educational and medical facil-

ties, urban rot, and growing contempt of young radicals for the adult society they are invited to enter.) Instead, it has concentrated on creating vast pork-barrels for financier interests, breeding costly, non-productive bureaucracies, and pouring billions into an orgy of cancerous speculation. The socialist answer is obviously *not* that of redistributing the resulting poverty. The socialist task is to successfully reorganize and manage this economy where the capitalist management has utterly failed. To prepare for a coming social crisis is to develop, propagate, and organize around a program of socialist re-industrialization of the U.S. economy.

— L. Marcus  
New York, NY  
March 26, 1967

## THE THREAT OF WORLD DEPRESSION

U. S. Imperialism's world economy is now in the opening phase of a probable new general crisis. That is to suggest a threatened repetition of the 1929-31 bang, only on an augmented scale more appropriate to the atomic age. No exact date can be set, nor is a bust yet a certainty for the immediate future. At this stage of the process, the depression itself is not the point; it is the *threat* of such a crisis that is determining the course of present world history.

The views expressed here have nothing in common with conceptions falsely attributed to Marx, such as the vulgar "Marxist" view that "inevitable" depressions "spontaneously" transform workers into socialists. On the contrary, as Lenin emphasized, the ruling class never faces an absolutely insoluble economic crisis. As long as workers and colonial peoples consent, the U. S. financiers have the possibility of finding a solution agreeable to their interests—through some radical change in existing institutions. It is the history of this century that imperialists have been successful on balance in so overcoming each new economic threat. Whether through wars, ferocious witch hunts, struggles against real wages of workers, or, in the last resort, fascism itself, the main centers of imperialism have kept their capitalist banners aloft through every economic storm.

Dramatic turns in the course of world history, including great revolutions, are not automatically brought about by depressions, but through the upheavals, such as wars, great labor struggles, which are *initiated* by the efforts of the ruling class to prevent or get out of economic crisis.

So, today's signs of an early probable economic crisis do not mean an inevitable bust. Rather, such portents impel

U. S. ruling circles to seek solutions to their economic problems at the expense of real wages, through wars, and through a whole assortment of innovations in the domain of social relations, in official morality, and in political institutions.

Now, as in each prior such crisis (e.g. 1914, 1939), it is the imperialists themselves who unsettle the established institutions of class collaboration ("wage guidelines"), who initiate wars (Vietnam), trample today on the moral sentiments which they yesterday inculcated in all layers of the population (diminishing credibility of Kennedy, Johnson regimes). It is the tendency for a general increase in such radicalizing actions by the ruling circles, today as in the case of the French Revolution, which those circles have no more option than Louis XVI but to undertake, that transform periods of impending crisis into the breaking points of history. It is this which makes a period such as our own one of wars, great socialist struggles and even revolutions.

This view is in contrast, of course, to those schools which attempt to establish a mechanical correlation between "radicalizing factors" and popular unrest. The key to history is the conservatism of the oppressed, the ruled; their stubborn reluctance to institute change in their own interest, their prolonged devotion to the old regime to a point long after reasonable self-interest demands revolution. It is only when an economic crisis is transformed into a social, political crisis, that the floodgates of history are opened and overdue social change unloosed with a violence which is in proportion to the depth and duration of its prior suppression.

### Socialist Rhetoric and The "New Reality"

Granted, most socialists have so far declined to adopt such a view of present events. During the late forties and early fifties the shards of the old socialist parties, disappointed by the failure of a post-war depression to appear, went over to the prevailing liberal myth, that the post-war U.S. economy, with its "built-in stabilizers," had become a virtually depression-proof autarchy.

To the degree that many disheartened old radicals remained active socialists, they based their perspective on revolutions in the colonial countries; they had given up hope that "it could happen here." Ironically, they have generally

defined contemporary U.S. Imperialism as "something new," something "unknown to Marx," incomprehensible to Marxist analysis, *in the same fundamental terms* as Eduard Bernstein did in his analysis of the German economy in 1897-99. So, with respect to the scientific merit of such prevailing "socialist" views, it suffices to cite Rosa Luxemburg's *Reform or Revolution*,<sup>1</sup> which has almost as much relevance on this point, *as a scientific work*, today as it did in the first decade of this century. Suffice to say, most socialists are taken absolutely unaware by the history-making developments now emerging from the economic basis of contemporary U.S. world imperialism.

### 1958—A Turning Point

Unlike these socialists, the leading layer of financial intelligentsia is not astonished. The public record shows that these circles have been acutely aware of the danger to imperialism since the last forties, when they narrowly escaped an explosion of the inflationary forces of that period. The more or less inevitable onset of the present crisis was foreseen not later than 1958. It was evident at that latter time that the investment miracles in Western Europe, Japan and elsewhere in advanced capitalist sectors, would run their course by the mid-sixties. When that happened, U. S. imperialism would face—as it does at this moment—the kind of threatened general monetary crisis which follows any period of prolonged credit-expansion.<sup>2</sup>

This very foresight has impelled leading financial circles to develop some appropriate new strategy to replace the tottering basis of post-war prosperity. The general form of such solution on which all leading imperialist thought necessarily converges would be described by an economic historian as a "Third Stage of Imperialism" That is to say, a fundamental change in the general form of exploitation of the underdeveloped sectors by the advanced, to forced combined industrial development of both advanced and underdeveloped. That is the strategic outlook of official U.S. imperialist policy since at least Eisenhower's 1960 State of the Union address on foreign policy.

1. Rosa Luxemburg, *Social Reform or Revolution*, Tr. Integer, Young Socialist Publications, Colombo, Ceylon, 1966.  
2. Karl Marx, *Capital*, Vol. III, Kerr, pp. 523-611.

## Laws of Bureaucratic Response

### HOW POLICY IS MADE

This is not to counterpose to "economic determinism" a "conspiratorial" account of history. Examining the way in which leading circles develop and implement new policies and tactics, their course seems to justify the account of history peculiar to pragmatism.

The desired new imperialist order of things emerges as the prescience of a narrow fraction of the leading bourgeois intelligentsia. Such broadly conceived new strategies tend to be comprehended only by a narrow layer of financiers whose everyday life compels them to take a world view on all important questions of their self-interest. Guided by such hazy foresights, encumbered by the awkwardness and cretinism of the legislative and executive bureaucracies through which policies are implemented, the ruling circles stumble, fumble and bungle, combatting not only objective difficulties but also the parochialism and conceptual impotence of the more numerous and backward layers of their own class.

At every turn, they are burdened further by the inertia inherent in that motley collection of diverse class and caste interests out of which they have assembled a broader social base for their regimes. Through wild groping activity, policies and strategies are constantly modified. An experiment backfires, such as the extremely short-lived pro-Castro policy: an about face; another experiment flounders, such as the gerry-rigged "Alliance for Progress;" a retreat; then a new thrust. . . . Through such zigs and zags they are kept to a definite secular course not so much by intent as by the buffets of impatient self-interest.

It is just this character of the state bureaucracy which disorients most "expert" observers of the political process. That is to say, most contemporary commentators attempt to find a lawful account of the course of current history in the inner structure of bureaucratic life or in the rationalizations of position papers, etc. Their very factual premises show that they have overlooked the most fundamental things. While examining this or that leg or perhaps the tail of the elephantine bureaucracy, even with the most exacting scholarship, they miss such essential points as the nature of the bureaucracy as a social formation, and the contradictions between the dictates of its bureaucratic interest and the interest of the system it has been constructed to serve.

That is to say that the bourgeois state bureaucracy, a corporate bureaucracy, the Soviet bureaucracy, or a trade union bureaucracy have immediate interests, each as a distinct social formation, which are seldom symmetrical with and often antagonistic to those of the larger social formation, the base, on which the existence of the bureaucracy depends. From day to day, it might seem that the inner laws of bureaucracy are leading toward a repudiation of the social basis for its own existence. Yet, with few exceptions, in the final analysis, they are seen to respond, however crudely, to the interests of the base. So, for example, Stalin butchered the leadership of the Red Army which wished to prepare for a war with Nazi Germany, made deals with Hitler which seemed—and were—contrary to the interests of the Soviet nation, and yet, having betrayed the interests of the USSR bloodily up to that point, marshalled the defense of the Soviet Union. It is the same with a trade-union bureaucracy, which may sell out its membership through sweetheart contracts and whatnot, but, even though reluctantly, will lead a militant strike to *defend the existence of its base*. In a general way, these principles also apply to the bourgeois state bureaucracy.

The reality of the process is determined in the interactions of state bureaucracy and the economy. The economy throws up a problem to be solved by the bureaucracy. The bureaucracy, perhaps in this instance acting according to its bureaucratic interests as such rather than the interests of the

imperialist economy, may supply no answer or provide a mistaken policy. The matter does not end there. The inactions or actions of the bureaucracy themselves have material consequences in the economy, which in turn present the bureaucracy with new crises to solve, and so on. That is to say, the lawful historic course of the bureaucracy does not arise from the internal processes of the bureaucracy per se, but from the interrelationship between the executive and the economy.

### Internal Bureaucratic Development

This foregoing account still leaves one issue to be settled before we can attribute to imperialism a definite policy, a "Third Stage of Imperialism" strategy.

Non-Marxists, dealing with the subject of the origins of state policy, have argued that in fact the government bureaucracy's decisions are not *usually* premised on a conscious grasp of imperialism's relevant historic economic interest. Up to this point the empiricist scholar is factually correct. The same can be said for the corporate bureaucracy, whose premises and mode of decision-making do not correspond *intensionally* (sic) to the corporate long-term economic interest. But, after noting this, the non-Marxist commits a flagrant error of extrapolation; "therefore," he reasons, "U. S. policy is not determined by imperialist historic economic interest."

To this empiricist error our own argument thus far fails to supply a complete alternative. The question remains: if the internal criteria of the state bureaucracy are not immediately, at least, those of imperialism's economic interest, how do the buffets of circumstance ultimately impose the dictates of such a lawful expression of interest upon it?

For a first approximation of the answer one can conveniently turn his attention to the corporate bureaucracy, a phenomenon closely akin to the state bureaucracy, but affording the empiricist case-method worker the advantage of "repeatability" of the lawfulness exhibited. In such cases we see that a corporate bureaucracy whose internal premises are contrary to the corporate interest, actually functions according to a general line dictated by objective assessment of the corporation's lawful self-interest.

A corporation's executive is composed of departments, such as sales and marketing, manufacturing, purchasing, accounting, finance, etc. In the workings of the bureaucracy, each of these separate functions proceeds from a point of view which is mostly antagonistic to that of its brother departments. Consider, for example, the matter of merchandise and inventory policies, on which the interests of sales are violently antagonistic to manufacturing's, and the interests of both run violently counter to the interest represented by finance. If the "natural" point of view of any one department were to prevail for long, the corporation would go bankrupt. Yet the actual functioning of the executive lies not in what bureaucrats think or know concerning corporate interest, but in the "effective interaction" of contending departmental tendencies.

That is not the end of the matter, of course. The bureaucracy, as a social formation, naturally tends to seek to increase itself, to divert increased surplus to itself—at the expense of even stockholders and financiers, to aggrandize itself. The corrective to this tendency and to other dysfunctions emerging from the bureaucracy itself is obtained from financial processes. Contrary to the popular current myths of "corporate capitalism," the corporation is by no means autonomous. Its existence, and its internal sources of funds depend in most cases on outside sources of credit.

Even in those few instances where corporations seem financially independent of Wall Street—and that is only an appearance—they are subject to the rule of finance. They are consumers of credit issued by vendors and others, and are themselves creators of credit afforded to customers and vendors; some are financiers, in the sense that they are major exporters of financial capital into the general capital funds market. They are all today exactly, in principle, what Rosa Luxemburg saw them to be sixty years ago.

Slight variations in rate of return on investment and prevailing interest rates cause masses of capital and credit to flow in or out of any corporation, thus settling in a most unarguable fashion the issue of merchandising, inventory policies, of bureaucratic staff-stockpiling, additions of new executive office suites, and so forth. Finance ultimately determines the flow, in or out of the firm, of means of payment through which the bureaucracy, as a social formation,

reproduces itself, adds to or eliminates functions, and pursues the investment activities which represent the outcome of its executive judgment.

### **How Bureaucracy Evolves**

The development of a bureaucracy appropriate to the corporate interest did not arise by pre-design; it evolved. How that process of evolution proceeds is seen in connection with the growth of the computer industry. Since the main use of the computer today is administrative, the design of a computer system should be determined by the function it ought to serve in the executive. Yet, the introduction of computer technology to the firm itself portends devastating changes in the internal structure of the bureaucracy.

At first, following the path of least resistance, computer systems were aimed to continue the lines of existing corporate accounting and related practices. This approach was, in the main, a failure; then, it began to be recognized that the computer necessitated changes in the conception of corporate organization, and with that the notion of *total* computerized corporate systems began to be hatched, to the end that the fruits of technology were adapted to the needs of an emerging, changed form of corporate organization. The development of computers in this direction tends now to bring such changes in organization into being.

However, computer use and applications design involves massive expenditures which, in corporate jargon, have to be "justified." So, computer systems and applications design development must follow the line of corporate economic interest, and so the implied organizational revolution in the corporate bureaucracy in turn follows the same lines.

In a similar way, each developed "function" of the bureaucracy emerged and evolved a distinct relation to the bureaucracy as a whole. It is in this constant effort to throw up new "functions," to redefine relations among functions, that the bureaucracy adapts itself to the line of lawful economic interest.

The government bureaucracy is of the same general form, not as a result of any accident. Its line of development has been to provide first of all a massive instrumentality of public finance and credit, to create credit for sustaining the

capitalist market through massive hocking of the future tax-income powers and expectations of the state. It provides this resource not only for domestic use, but for foreign as well, and develops, parallel to this, the other essential instrumentalities, military, intelligence apparatuses, "built-in stabilizers" both economic and social-political, to support the purely economic side of those ventures, just as corporate sales, manufacturing, labor relations, etc. cohere indispensably with finance. The interrelation of central banking systems with the public treasury (Federal Reserve Act), instituted in the wake of the 1907 panic and developed further in the wake of the 1929-31 crisis, offers one side of this evolution. The military establishment, whose main effect on the economy is the subsidy of private capital's profits through public funds, grew out of U.S. capitalism's inability to get out of the thirties' depression by private means. Or, so particular a development as the Civil Rights decision of 1954, which happened to occur at just that peculiar point of national economic development when investors in runaway shops in the South were concerned with the fact that cheap Negro labor there was insufficiently educated to provide effective labor-power for modern industry. (cf. Winthrop Rockefeller versus Faubus.) It is in this way that the state apparatus acquires new functions, interacting with the modified old, to yield in balance, a characteristic response to imperialism's economic interests.

### **Methods of Political Analysis**

The consequences and lawful behavior of social formations lie not in the intentions of the individuals who are their members, but in the structure of the social formation as a whole. The beliefs of the individual members generally correspond only in a fantastic way to the function which they serve. Occasionally, in the case of an exceptional individual, particularly one with an overview of the bureaucracy, we may encounter a statement of purpose filled with machiavellian candor; but for the rank and file of the bureaucratic intelligentsia, their own statements respecting premises and objects have mainly the significance of a purely religious utterance, a rationalization.

The only solution to the problems of scientific investigation

thus presented is, first of all, to know the dictates of imperialist historic economic interest, and then to trace the process through which the bureaucracy responds to the imperatives thrust upon it by problems reflecting manifest imperialist self-interest.

Our tasks, in attempting to adduce the new policy toward which they are impelled, are mainly threefold. Firstly, to define the problem which compels imperialism to seek a new general strategy for its further existence. Secondly, to summarize the main features of the indicated solution, "The Third Stage of Imperialism." Finally, to show that in imperialism's attempted passage from the present strategy to the new, a breaking-point in history is created, at which the question of socialism in the advanced countries is again transferred from the domain of contemplation to become an issue of practice.

## POST WAR BOOM—WESTERN EUROPE

The failure of most American socialists to grasp the basis for post-war prosperity flowed generally from their ignorance of economics, or in cases where there was economic practice, the approach to this issue on the mistaken premise of "national" economies. Even today, this latter error is pursued in some of the most credible socialist circles; that is the case with the Baran-Sweezy *Monopoly Capital*, in which the authors mistakenly abstract the question of U.S. corporate surplus and surplus rates from their basis in a U.S. imperialist *world economy*. So they attain particular conclusions which are, in fact, opposite to the larger reality. This, in itself, is a most relevant point of our immediate inquiry, which we shall take up a short space ahead.

The first approach to a correct view is given in Harry Magdoff's paper on imperialism.<sup>3</sup> The post-war prosperity of the U.S. economy has been most directly based on U.S. investment in the advanced capitalist sectors abroad. Of course, but for passing observations in the appropriate direction, Magdoff does not attempt to go further, that is to show the dependency of all advanced sector's capitalist development on its relations with the underdeveloped sector. On account of the limited scope of Magdoff's brief paper, some socialist scholars have mistakenly contended that he did not actually deal with imperialism, since they misconstrue "imperialism" to mean "colonialism." In any case, Magdoff proved his point phenomenologically, that the profitability of U.S. Imperialism at home today depends immediately on its

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3. Harry Magdoff, "Economic Aspects of Imperialism," *Monthly Review*, Vol. 18, No. 6, Nov., 1966.

growing post-war investment in the advanced capitalist sectors abroad. It is the exhaustion of those investment opportunities, *symptomized* by the British crisis and the present West German recession, which is turning the post-war boom into a threatened general crisis.

War-ruined Western Germany, France, Italy, Japan, with their masses of cheap, unemployed, skilled labor, provided the objective basis for massive U.S. credit-expansion and overseas investment. Foreign aid of various kinds, motivated by "Marshall Plan" policy, provided the so-called "infrastructural development" necessary to the private capital investment which followed the aid dollar.

### **Socialist Victory Was Possible**

Britain, too, was "conquered" by U.S. Imperialism through World War II, although not in quite the same way as the continental economies. In the continental economic satrapies of post-war U.S. Imperialism, enormous masses of obsolete capital were written off, thereby freeing those economies for a kind of "fresh start" development based on the most modern plant and equipment. Britain's essential obsolescence was preserved. This difference, in respect to which colonial France lies midway between colonial Britain and colony-less Germany and Italy, flowed from the fact that the British pound, with its far-flung colonial resources and colonial currency reserves, was an indispensable bulwark for the dollar. Since Britain's obsolete capital at home was part of the value of the pound, ancient plants could not be easily written off; instead the average value of the pound with respect to the dollar was ultimately reduced, at the expense of British workers and colonial peoples, making the obsolescence-rotten pound a harder currency, to prop up its inflated master, the dollar.

This was not the inevitable outcome of that war. It was when the French Maquis surrendered their weapons to De Gaulle—on the friendly advice of Stalin, when French communists entered the provisional Gaullist government as "strike-breakers" (until they were ungratefully dismissed by the French bourgeoisie), that France, and Germany's flank, was secured to U.S. Imperialism. The same process is seen in post-war Italy. A socialist revolution in Western Europe at

that time, when striking GIs thus exhibited their disinterest in putting down such revolutions, would have swept all Europe and brought the capitalist world system promptly to an end. But the French and Italian communist leaders betrayed socialism, and the rest is history.

## POST WAR BOOM — COLONIAL WORLD

Formal international accounting grossly understates the dependency of U.S. Imperialist prosperity in the advanced countries on the growing misery in the underdeveloped. Magdoff points to the accounting side of the matter in his reference to the general outflow of capital from the underdeveloped to advanced sectors.<sup>4</sup> A greater exploitation, not shown in the accounts, occurs through the low prices at which underdeveloped countries sell and the relatively high prices at which they buy. If colonial labor were paid on the basis of simple labor time at a European scale—which is not the basis for wages under capitalism—there would be a monstrous rise in the price of mineral and plantation exports from the underdeveloped to the advanced countries, a direct deduction from the gross national product of those countries and a ferocious deduction from profits. A similar, if far smaller deduction from U.S. and Western European GNP would occur if colonial labor were paid even on the basis of its labor-power (i.e. relative productivity,) at Western European scales. This gives us some first approximation of the general relationship between the two sectors, but not yet the answer.

The fact of the underdeveloped countries is that they are rich in labor but extraordinarily poor in labor power; they lack skills, they lack the modern means of production with which to "compete" with U.S. or Western European labor. Thus, a product requiring many hours of labor-time by colonial peoples is exchanged for the money equivalent of a product requiring a few hours or less if labor-time in the advanced. Some indication of this is given in comparative

figures on gross national product and national income per capita among the economies of the various sectors. How many working-lives of how many hundred laborers in Latin America or India are required to buy the modern machinery required to employ one native worker under modern productive conditions?

Comparing England and India, for example, in the seventeenth century, we see that this discrepancy was by no means as great at the start of the bringing of the "benefits of capitalism" to the "underprivileged heathen." This present misery is in fact the principal "blessing of civilization" which Europeans and Americans have bestowed upon their dark-skinned brothers. This discrepancy, in fact, embodies the concentrated history of capitalism in the presently underdeveloped sectors: primitive accumulation. Capitalist colonial looting and trade, imperialist investment, have systematically stripped those sectors of their social capital, the natively-produced social product which could have supplied the means of production for these people to keep pace with the advanced capitalist nations.

### The Falling Rate of Profit

This phenomenon is exacerbated by a tendency of capitalism known as "the falling rate of profit." That is to say, as the organic composition of capital (ratio of cost of means of production to wages) increases, the rate of profit on combined capitalist investment must tend to fall. It is the apparent "violation" of this law in the "national" U. S. economy that is the centerpiece of Baran & Sweezy's *Monopoly Capital*.

Contrary to the implications of *Monopoly Capital*, the tendency of the rate of profit to fall is not a short-term affair (of a mere decade or two), nor is it a "national" economic phenomenon. Since the world market has become, in the late nineteenth century, a completely interconnected economic whole, the law of the falling rate expresses itself, like the average rate of surplus value, only on a world scale. Any isolated national examination of the phenomenon must produce findings which are necessarily contrary to the reality, as in *Monopoly Capital*.

As Marx showed, the price of commodities is not determined

4. Magdoff, *ibid.*

in particular by their value,<sup>5</sup> but by their price of production, that is to say by an average rate of profit on invested capital. (The notion of average rate is not a mere percentage figure, but varies from industry to industry and sector to sector to equalize itself to correspond to realizable profit: e.g. liquidity, risk, long-term—short-term, etc.) The "investment decision" which leads to an increase in the organic composition of capital locally is predicated upon considerations of increased productivity and other essentials of expected profit-rate. Furthermore, the more general becomes the flow of capital, as through the development of world money markets and international credit, the more freely capital and credit flow from one sector or sub-sector of that world economy to another. The gradient of these shifts is, of course, the rate of profit.

Thus, at the level of the individual firm or sector, the limit of expansion of production is determined by the point at which the resulting rate of profit on investment falls below the "average," such that capital ceases to flow into that sector and instead tends to flow to other sectors. If prices in any sector make the rate of profit higher, capital flows in until expansion—overproduction, for example—causes an equalization of effective profit rates, and so forth.

In this process the rate of increase of profit to wages is far greater in general than the rate of increase of profit to total capital invested—for reasons beyond the technical scope of this paper. The result is that a local increase in investment rates tends to reduce the rate of profit in the world as a whole, however, not necessarily in that sub-sector in which the augmentation of organic composition occurs. Since higher investment ratios are governed by "investment decisions" bearing on the productivity of labor, what happens is that the advanced sectors take the consequences of their capital investment out of the hides of the less developed sectors.

To understand how this occurs, we have only to recognize the contradiction between the individual firm, or foreign investment sector, of an underdeveloped sector of the economy,

5. If commodities were sold at their value, the price of an article would be the sum of: (1) The direct "outside" cost of materials, machinery, plant, etc., consumed in its production, plus (2) a fixed multiple (e.g., 150%, 200%) of its direct productive labor cost. This fixed multiple would be approximately constant for all commodities in the economy.

and the economy as a whole. The falling rate of profit tendency, generated mainly in the advanced sector, does not transmit itself so much to the foreign investments in the underdeveloped sectors as through those investments in the local economy which lie outside the foreign investment sector. In a word, *primitive accumulation*; the capitalist sector controlled by foreign investors maintains its profits by milking the "native" sector. The more capitalism develops in the advanced, the more ferociously it transmits the penalties of its advancement to the semi-colonial native sector.

The result is that these populations generally are stripped not only of the means for creating "native" capital, but of their very means of existence. So, we have the picture of growing populations—undergoing a population explosion produced significantly by capitalist influences, but deprived of the means of production wherewith to produce the material means of its own existence, starvation. This achievement, starvation, is not to be credited to the falsely alleged genius of parson Malthus, but to the direct effects of imperialism.<sup>6</sup>

What *Monopoly Capital*, thus, fails to take into account is that the profits raked in by U.S. leading corporations depend immediately on the cheap, skilled labor of other advanced capitalist countries and the mass of literal starvation among billions of people. Without directly relating U.S. corporate surplus to starvation in the Southern Hemisphere no scientific judgments can be advanced respecting surplus or tendencies in "surplus" rates.

This is not to suggest that imperialism thus escapes the consequences of the falling rate of profit. It only, so to speak, has exacted from its poorest subjects the price of the bondsman's fee, wherewith it enjoys a certain period of freedom up to the day of its inevitable trial.

Exactly as U.S. Imperialism begins to exhaust a sufficiency of investment opportunities in Western Europe and other advanced sectors, it is compelled to turn for new investment opportunities to the underdeveloped sector. Its needs

6. This involves a kind of exploitation which can not be treated as an extreme case of wage-exploitation. The latter scrapes wealth from the sweat of a man's back; the former sucks his blood—e.g. literal starvation. For obvious reasons, I term this latter process *negative accumulation*.

in this matter are not to be measured in terms of its investment appetites of 1946 or 1950, but embody the greatly augmented and desperate financial needs of both itself and its foreign advanced-capitalist satrapies. It has nowhere to turn for this purpose but to those very underdeveloped sectors it has already depleted as investment markets for industrial investment. The means of its former prosperity now threatens to become the instrument of its collapse. So, the imperialist world economy, like Riemannian space, proves to be circular.

Inevitably, U.S. leading intelligentsia seek a solution to the new problem in the same general terms which seemed to produce such spectacular success at the last crisis. The notion of overcoming the backwardness of depleted economies by "Marshall Plan" schemes is the institutionalized response of the leading layers of state bureaucracy as it has been constituted under the past twenty years of the "Marshall Plan" prosperity.

## **POST WAR BOOM — CREDIT EXPANSION**

Modern imperialism circumvents the short-term threats of "over-production" by, first, turning the unsold production into security for credit—indeed by hocking all real and fictitious values in sight in order to create more credit. This credit, in turn, is transformed into money through the state treasury and central banking system, money which is also mortgaged to create new credit—and so on the process continues, upward toward a seemingly endless prosperity.

Up to a point of reckoning.

The accumulation of an ever-growing public and private debt in this way creates an additional item of cost in the capitalist's accounts: debt service. This, debt service, is the combined interest, service charges, and currently due repayments of principal advanced which are the current costs created by any debt. For a number of reasons, some to be cited for illustration here, this item of cost, debt service, tends to grow more rapidly than the means for paying it off. When, after any prolonged period of credit-expansion—like that of the past twenty-five years—debt service overtakes or exceeds the existing means for its payment, a balance of payments—liquidity—crisis appears in the world economy.

## **A Balance of Payments Crisis**

The natural reaction of the world market to such a balance of payments crisis is to discount the value of instruments of indebtedness, such as stocks, mortgages, acceptances, and even the securities of central banking systems and national governments. Obviously, if a debtor's ability to meet

current payment due on a debt is reduced, then the value of that debt, as an investment purchase by another party, is also reduced. However, since this debt represents, in large part, the main constituent of assets held by central bankers, and since this debt has been used as security for printed currency and other means of payment, a balance of payments crisis threatens to bring about a devaluation of such currencies themselves. It is therefore those principal currencies which are responsible for the largest portion of the world's created credit—such as the dollar and sterling today—which tend to suffer the most immediate balance of payments pressures.

Such a crisis does not mean that the book value, so to speak, of the capitalists' mortgaged properties and paper are insufficient for the amount owed. The problem is that the capitalists' current incomes are insufficient to meet payments due without curtailing other expenditures indispensable to maintaining the capitalist system. In any bankruptcy, for example, the book value of buildings, inventories, equipment and portfolio may far exceed the amount owed to creditors. The debtor is nonetheless bankrupt; he can not meet his bills as they fall due, so his *long-term* assets must be auctioned off to pay his *short-term* debt. It is the same with national economies suffering a balance of payments crisis; no matter what the value of long-term assets, the debtor is bankrupt unless he can satisfy the current demands for payment advanced by his creditors.

#### **Debtor and Creditor the Same Person**

The irony of such a crisis is that the debtor and creditor are, so to speak, the same person, the capitalist class. It is not merely a matter of capitalist, John, failing to pay capitalist, Paul. If John is unable to pay Paul, Paul is in reduced circumstances for paying Peter, who in turn, is thus impaired in his ability to pay John, thus compelling John to auction his assets off to pay Paul, eliminating himself as a customer for Paul and as a supplier to Peter, which reduces Paul's income thereafter, thus forcing Paul into the position John occupied a moment before. The problem is not that John is unable to produce at a current profit; it is that held-over mass of debt, which somehow must be rid of.

#### **Property Forms A Fetter on Production**

The root of this problem is the capitalist system, that is to say the connection between property forms in the means of production and production itself. If a capitalist ceases to be a capitalist in terms of property forms, titles of ownership, he ceases to function as a capitalist, irrespective of his abilities as an organizer of production, the productive capacities of the workers he employs or the need for the product of his plant. So, productive relations are made into capitalist property relations, with the result that production ceases with the extinction of the title to property in those means of production—on penalty of law.

So we have a situation in which the need for certain commodities, the productivity of workers (rate of surplus value), have nothing to do with the continuation of production. While it might seem that a writing down of capitalists to their true, bankrupt value should have no effect on the continuing operation of the means of production itself, it does, and it must—for that is the basis on which production proceeds under capitalist property relations. It is for that reason that a general auctioning off of debt-ridden capitalists at their true value produces a depression.

Why, then should we permit the process of production on which our material means of existence depend, to be periodically shut down or curtailed by the mere anomalies of capitalist property forms? That is, of course, the question raised in a particularly acute way by every actual or threatened depression, as it is by every war launched in an effort to perpetuate those same property forms.

It is most relevant at this point to consider some of the ways in which debt service overtakes the available allocated means for its own payment.

#### **Cancerous Speculative Growth**

A substantial part of the gain in debt service charges over allocated means for its payment arises through capitalists' speculation. Any financier knows the elementary principle of prudent borrowing: the use of borrowed money must yield a greater increased income than the debt service so incurred. No financier would borrow on any other basis.

Yet, in practice, without any financier necessarily violating that principle for his own part, through just such prudent borrowing *individually*, financiers as a whole absolutely repudiate that, their own sacred principle of thrift.

A real estate financier, for example, will borrow on the basis of a just expectation of an inflationary rise in the resale price of old properties. This flow of capital into real-estate speculation, while it agrees with the *individual financier's* dictum of prudent borrowing on his own part, does not contribute to any increase in value produced by the capitalist system as a whole. Resale of stocks, bonds and other forms of speculative investment have that same character; they increase the aggregate debt service which must be ultimately paid out of useful production's income without increasing productive output in the slightest.

Such speculation is inherent to the capitalist system. One might mistakenly assume that the calamity of sixteenth century Antwerp and Ausgburg bankers would have warned them of the consequences (inevitably, the bankrupt debtor must repudiate his debt, with or without the sanction of cannon law, and then the banker must himself become bankrupt.) However, the anarchy of capitalism prevents such individual capitalist precautions. While the individual financier may bewail, as through the voice of the Wall Street Journal, the horrible prospect implicit in mounting state debt, he is the first in line to demand the fruits of federal, debt-based spending to his own account.

Since speculative gains in stocks, bonds, real estate, government securities, depend upon an increased flow of capital, credit and exactions from workers (as through rents for inflated real properties), and each new flood of such speculative capital into these areas tends to increase the rate of appreciation of purely paper values. Thus the tendency is to attract still further credit and capital into these same areas—away from useful investment in the means of production. If, in order to sustain this bubble of speculation, the state and central banking system continue to supply a flood of cheap credit, eventually the rate of gain in speculation must overtake the rate of realized profit of industry, so that production constricts for want of capital, while masses of real capital and credit flow into a deadly inflationary spiral in pure speculation. So much for the collective wis-

dom and sanity of the capitalist class.

Just because, in fact, the financiers have *collectively* learned the evil outcome of their own uncontrollable individual impulses, they have collectively encouraged the central banking system and state apparatus to regulate them to a limited extent. The very statism concerning which they howl in their peculiar organs is an instrument of their own creation, and their shrieking and gnashing of teeth is but an expression of the contradiction between their collective interest and individual suicidal urges.

This point is of some importance both to the matter at hand and to the general thesis advanced at the outset. Consider the uninformed view of Kennedy's role in the steel price increase affair. Kennedy was being, it was misconstrued, "liberal," even anti-capitalist. Not the dutiful son of Joseph Kennedy! The capitalists do not convene at something like an NAM conference to decree that the government shall regulate them in such and such a way. On the contrary, their leaders, coming to recognize such a need for regulation, as Teddy Roosevelt's "liberal" Republicans, create an institution, a function of the bureaucracy—such as Department of Justice anti-trust activities—to deal with such matters. It may be that the particular actions of these agencies, in pursuit of their narrowly assigned function, will deviate from time to time from actual capitalist interests. That is no matter, these functions of government, as in the Kennedy steel case, are in the general interest of the capitalist system, just as are the reserve ratio and other regulative actions of the Federal Reserve System, the explicit agency of the leading U.S. financiers.

Obviously, the mass of "values" accounted in speculative paper are not real capital in the sense of investments in means of production; the gains embodied in those titles are purely fictitious, represent *fictitious capital*. As these titles themselves, stocks, mortgages, etc., become security for new credit, and ultimately for the creation of new masses of currency itself, money itself is devalued in content by the increasing proportion of speculative "hot air" in each dollar bill.

### Parasitism and Waste

Credit is also piped into wasteful forms of investment con-

nected to the means of production and distribution. The number of government and corporate clerks per productive worker are increased; the number of salesmen per productive worker rises. Large masses of capital flow into redundant sales offices, financial institution establishments, purely redundant "dealerships," supermarkets, and so forth, all of which adds not one penny's worth to the real output of production itself.

The Federal government creates a debt for war production. State, Federal and Local governments hock their future tax receipts for largely wasteful "public trough" expenditures, or to employ capitalists in wasteful public projects. So, more debt piles up, creating new debt service demands against current income without contributing to any increase in the current real wealth out of which payment must be rendered.

If we inspect the history of the post-war domestic economy, especially since 1957-58, we find stagnation in the employment of productive workers, semi-stagnation in the rate of new investment, and the bulk of the rise in employment in outright parasitical (government bureaucracy) or redundant elements of the social division of labor. If we deduct from real productive employment and investment, that portion attributable to military spending, to redundant commercial investment, to growth of plant and staff for financial institutions, and compare this with the growth of public and private debt, we see how the domestic picture of credit-expansion corresponds to that outlined above.

Debt service incurred by capitalists in this way must be paid mainly out of surplus value, out of specifically that portion of surplus value which corresponds to interest in the current structural norms of capital flows. That is to say, there is an allocable portion of total surplus which can be used to pay debt service without disturbing the general equilibrium. When that amount is exceeded, as debt service overtakes this allocable portion of surplus value, the crisis appears.

### Is A Crisis Inevitable?

A balance of payments deficit is not in itself a crisis. If the capitalist system has any immediate long-term prospect of investments in real production which might increase its

ability to pay off debt service, the capitalists can negotiate terms with themselves (e.g. International Monetary Fund, informal agreements among central bankers directly, etc.) through which to defer a certain portion of short-term deficits in the form of a longer-term debt. What makes the immediate threat from the balance of payments crisis so severe is the exhaustion of opportunities for real investment in the advanced sector.

This is not to suggest that there are no remaining investment opportunities in Europe, for example. On the contrary, as with American interests' taking over of the French computer industry, or Chrysler's takeover of British Rootes, or Ford's takeover of its British subsidiary, there are many such *essentially speculative* investment opportunities. Nor is there any absolute want of some real further investment opportunities, a situation which might be improved slightly by some rationalization of Common Market arrangements. The problem is that the mass of real investment opportunities has fallen way behind the mass of needs of capitalists for such investments. It is this that turns the ten-year crisis of sterling and the ten-year U.S. balance of payments run-out into the threat of an early depression.

## SHORT TERM IMPERIALIST ALTERNATIVES

The first reaction of the insolvent imperialist is, of course, to see how much his grandmother will bring at the nearest pawnshop. Who can be tapped to meet the capitalists' debts? The imperialists' short-term solution to their crisis is exemplified by the present case of Britain, which, in U.S. Imperialist interests (through the mediation of a "Labour" government), is exacting the needed funds from the workers' wage envelope. Otherwise, in this country we already see wages lagging behind inflationary rises (guidelines), and capitalists' state debts at all levels being met through increased state and local as well as federal sales and income taxes.

This is exemplified by the case of the New York City Lindsay administration, rushed into the breach by the financiers to solve the threatened municipal insolvency developed under the previous administration. Rising City debt service, a product of Democrat's frequent trips to the more respectable pawnshop, was one of the major, growing items of City deficit. Financiers postponed the impending financial crisis through increased sales taxes and a newly instituted city income tax. The introduction of that tax on wages reduced the contributions of real estate financial interests to half of the total city tax revenue. In other words, a shift of the burden of debt from financiers, who cause the debt, to wage-earners. The same pattern may be expected to continue in new city income taxes and in federal tax rises.

However, such short-term measures are just that. They suffice only to delay the sheriff's auction on the bankers' premises.

Without sources of investment for profit capital ceases

to be capital. So, the point at which newly formed capital loses the opportunity to become capital invested for profit, the profit-system as a whole threatens to break down. So, paying off current debt service with sums taken from wages solves nothing, since the accumulated payment is only added to the fund of capital demanding investments for profit.

The apparent solution, and institutionalized response, is to increase war production, that is, for the Federal, State and Local government to go further into hock to maintain an already cancerous credit-expansion. Of course, despite this, the inevitable reaction of imperialism, under more intensive blows from the balance of payments crisis, must be to take more out of labor, to the point of straining in the extreme, if not breaking, the coalition of financiers and labor bureaucrats on which the stability of the present political system depends. In the final analysis, that still solves nothing.

## "THIRD STAGE OF IMPERIALISM"

The form of the long-term solution sought by the capitalists is suggested by the runaway shop. Already, capital created by the production of skilled U.S. workers has run away to build shops employing only less skilled but much cheaper labor in Europe. In this way the average profit on a world scale is sustained and average profit at home also increased in particular.

There is an abundance of cheap labor below the equator, but a shortage of *labor power*. That is to say, a runaway shop, if it is to be competitive, must find labor with a certain level of skill in general, literate labor, labor that is not only the product of modern education, but also latently educated through *something* of a "Western" standard of living. And plants can not be simply dumped into the middle of an undeveloped savanna or jungle; plants require power, efficient transportation, communications systems, proximity to suppliers and customers, and so forth. The population must also be susceptible to "Western" ways of doing things, to capitalist notions of property relations, family, order, and so forth; it must be assimilable into the modern capitalist culture as reflected in relations between line workers and foremen. That is to say, in addition to the more obvious objective prerequisites for investment, there are, equally important, the subjective preconditions, juridical notions of human relations, etc. All of these conditions together are loosely termed "infra-structure" by brain-trusters in the state bureaucracy.

It is in that direction that imperialists see their longer-term solution to the presently impending economic crisis. Since they move through a bureaucracy, not as scientists,

they do not discover such a solution by advancing, discussing, proving some general theory, but pragmatically, through the concepts embodied in the institutions left over from the past. They see the solution not in scientific terms, but through the precedent of the "Marshall Plan" and "Fomento" development of Puerto Rico, in terms of "Food for Peace" and Fullbright funds, in terms of the International Monetary Fund, and through foreign institutions, such as Latin American juntas, or the Nehru bureaucracy or Ky regime, which are their existing institutionalized relations with underdeveloped sectors. They approach something new mainly by attempting to patch up the old instruments, by turning their instrumentalities into a Rube Goldberg device of gadgets affixed hither and yon, each attachment grafted on to "solve" a problem discovered through some particular experience.

Such a new policy was first officially presented to the general public, as we have stated, by former President Eisenhower, in his 1960 State of the Union address on Foreign Policy. In order to open up the Southern Hemisphere for direct internal market investment, a new "Marshall Plan" would have to be launched, this time with the burden assumed proportionately by Western Europe and Japan. Massive public aid and loans would develop the infrastructure, after which private capital, finding the economic and political climate agreeably air-conditioned for its comfort, would move in. Of course, Eisenhower pointed out that colonial peoples desiring to harvest such largesse from imperialism would have to learn to discipline themselves, a point which was later clarified by the assassination of Patrice Lumumba.

At the instant Eisenhower was delivering this policy Statement, Douglas Dillon, then an underling at the State Department, was negotiating a treaty along those very lines with that late great "socialist," Nehru. Under the terms of this treaty, India became, economically at least, in the same relationship to the U.S., Western Europe and Japan as Puerto Rico to the U.S. Under the provisions of this treaty since, while British India investment has stagnated, West German and Japanese investment leaped ahead, a process interrupted by the current famine.

Kennedy's abortive "Alliance for Progress" was a miserably inadequate, gerry-rigged "fomento" scheme, in all probability

hastily scrounged for the occasion from the drafting boards of the left-over Eisenhower bureaucracy. But it was also, in principle, consistent with a policy Kennedy had set forth in a 1958 Senate address. Kennedy's half-baked "land reform" program in Vietnam, continued recipes of the same sort now afoot, Daddy Bird Johnson's occasional mumblings about a "managed social revolution" for Latin America, are aspects of a bureaucratically bungled thrust toward implementation of the policy enunciated by Eisenhower in 1960.

### "Third Stage"

If it could be launched, this policy would represent a third stage of imperialism. The first stage is represented by British colonialist rape of India, by Britain's military effort to push the opium habit on Chinese people, and other picaresque colonial adventures of buccaneering commercial capital. The second stage is that characterized by Lenin and Hilferding, of monopoly capital's investment in the extractive industries, the use of masses of virtually slave colonial labor to work the plantations and mines. Under this second stage of imperialism, under which we have lived to this point, foreigners, like the unlamented Leopold of Belgium, or the interests of our own Rockefeller operated abroad with policies which respected not the least how many natives were butchered or worked to death, as long as there remained sufficient "slave" labor to man the imperialist workings. That is the continuing situation, under which our leading press indulges us with its ritual tears of ink over massive misery abroad, without troubling to suggest any alteration in that U.S. policy causing this suffering. In the new stage of imperialism—if it is launched—the lot of colonial peoples will be more fortunate in one respect. It happens that starving illiterates do not represent labor power for today's industrialists. That is to say that U.S. imperialists *will* regard colonial peoples as productive labor, as workers whose human virtues are acknowledged in direct proportion to their qualities of cheapness and servility. The Southern Hemisphere is intended to become the happy hunting ground of the runaway shop in this period as Puerto Rico has been in the last.

### "Could It Work?"

A number of socialist commentators, basing themselves substantially on the "Alliance for Progress" experience, deny that such a "Third Stage of Imperialism" policy could work even if the colonial peoples permitted it. On the contrary, if not prevented, it could work quite well for some period of time, provided only that the imperialists themselves are prepared to undertake the risks, the massive and revolutionary measures required to get such a program under way.

We must grant the cited socialist doubters that, "All things being equal," those very difficulties of starting up would ordinarily prevent imperialists from undertaking such a hazardous venture. The same could be said, of course, for the past two world wars. It happens that, as on the verge of a world war, "all other things" are by no means equal. Imperialism is impelled to any desperate resort the policy demands; it has no other long-term basis on which to predicate its existence.

The first obstacle to industrial development of the Southern Hemisphere is the plantation system. For any sector of the world economy to maintain an industrial working class, it must have a ready and ample supply of cheap food. "Cheap food" is a relative matter; that is to say, there must be a relative abundance at prices which represent only a fraction of the workers' pay for his family's needs. U.S. food "surpluses" do not suffice for this purpose; they are only useful supplemental means or part of an initial "pump-priming," to get local industrialization going under its own power. In order to have local food prices scaled to the wage-levels of local workers, this need must be mainly met out of agricultural surpluses from relatively low-wage areas. It is mainly to ample local food production that the plantation system is an obstacle.

In order to provide plantation owners with cheap labor, there has been created a layer of landless, proletarianized peasants without skills or opportunities for any other kind of employment—as we see in the case of migrant agricultural labor in the U.S. itself. The latifundist is therefore violently opposed to any "Homestead Act" which will raise the price of agricultural labor by affording peasants the opportunity to take up idle land and put it into modern

farm production. In the Southern Hemisphere, the proletarianization of large masses of peasantry is accomplished almost automatically by the draining of the internal economy of the social capital which would be required to develop agriculture. This result of primitive accumulation is augmented by juridical measures including landlordism which prevent peasants from freely occupying and developing fertile plots.

Before stable industrialization can take place, this latifundist system must be largely destroyed. This does not mean, generally, a distribution of banna and coffee lands for potato or corn farming. It means mainly a program of distributing *idle* arable plots to peasants, together with technological and financial assistance from the state. This will drive up the price of plantation labor, forcing the plantations to shift from labor-intensive to mechanized methods of production.

The present system is sometimes clumsily called "feudal." In fact, the latifundist system—a system of producing masses of agricultural output for the money market is a product of capitalism, and has not occurred anywhere in the history of man except through the development of mercantile capitalism (e.g., Hellenism generally, ancient Rome in particular, Southern slave-system). So, the question of social revolution in Latin America, for example, is not a matter of capitalists settling accounts with feudal remnants, but of capitalism reforming itself.

The imperialists' difficulty in Latin America at this point is that plantation interests there are not an isolated group within the capitalist system. Plantations are only the agricultural extremity in that part of the world of the central banking system in the advanced. To institute land reform, to force latifundists to mechanize, etc., is to wipe out a source of profits of the imperialist home countries.

Furthermore, the compradore class in these countries, rooted in the latifundist families and system, forms the "loyal" native governing class, the officer cadres of the police and armies servile to imperialist interests. To overturn the present latifundist interests in these countries is to attack major imperialist profits and investments in that sector and also to alienate and impoverish that caste of dons and colonels on which Coca-Colaization is presently based.

However, these consequences will ultimately be risked and solution found, if the need is sufficiently desperate—as it is.

Actually, the latifundists will be offered no more than "psychological" hardships. The procedure to be used is in principle the same as that employed in Northern U.S. cities' slum clearance programs. A tax collection is taken up from wage-earners; these funds are used to compensate slumlords or latifundists at top dollar. "Here's your money; go and invest it in industrial development." The objective transition from serf-owner to financier, like that from ganster to successful businessman, requires only sufficient ready cash.

#### A Variation—The Case of India

One major leg of imperialism's future is India, which requires a slightly different approach than that due for Latin America. The tired soil of that unhappy country does not admit of the land reform solutions feasible in much of Latin America. Decades of soil development, of technological work, must pass before that portion of the subcontinent can feed itself and also provide a surplus to sustain a growing cheap industrial proletariat.

The old British Raj provided for its industrial investment in India with rice imports from Burma. Such resources are insufficient for the collective investment appetites of the U.S., Western Europe and Japan. It is the Southeast Asian rice-bowl as a whole that can provide just such needed agricultural surpluses—that is to speak of such regions as the Mekong River area. (Obviously, there is no direct investment, present or prospective, in Vietnam itself which would explain the present costly war; but when the importance of the rice bowl as a whole is weighed against imperialism's present and future desperate interest in India, the Vietnam war appears in its proper focus in terms of U.S. imperialist interests.)

Planned imperialist investment in the underdeveloped sector is divided into two main parts, *public* and *private*. Massive public assistance, in the form of government grants, World Bank loans, and so forth, are intended to build up what contemporary bureaucrats term the "infra-structure" of the economy. This is to provide education, highways, railways, power, and so forth. These are elements which do not represent profitable investments themselves, but which are

indispensable to private investment as they provide labor with skills and otherwise create the facilities on which modern plants depend. Then, private investment follows. The "Marshall Plan" on a larger scale, adapted to the special enormous difficulties of these sectors.

The role of the military should not be overlooked in this process of developing a capitalist infra-structure. Marx remarked on the expression of concentrated production relations in the capitalist army; Engels researched some of the actual connections by which such a result is produced. The organization of a large-scale local army of a U.S. model is the most direct way of educating large numbers of colonial peoples, of drilling them in the customs and technology of capitalist life. The army as an economic entity in its own right, also provides, in addition to a massive prostitution industry, a host of camp-followers who soon learn the elements of modern capitalism—cheating, price-gouging, misleading packaging. In the wake of the army appear those wealthy pimps, gangsters, black-marketeers, etc. who have small capital and some knowledge of business, together with a mass of demobilized soldiers who have been drilled in following foremen's orders, in maintaining mechanical tools, etc. (Cf. Vietnam today)

With the colonial economies already running at a capital deficit, the public and private capital must come from the product of labor in the advanced countries. To turn India, parts of Africa and Latin America around, from primitive accumulation resources to sectors of industrial development, public aid alone must be advanced on a war-spending scale. Unless financier profits are to be reduced for this purpose war-economy scale increases in profits and in employee taxes must provide the bulk of these funds.

The general scheme for accomplishing this funding is seen in the "wage guidelines" recipe. That is, to hold real wages down to a fraction of the gains in potential real wages attained through productivity, to hold wage increases behind the combined effect of inflation and major increases in productivity. Thus, at best the material standard of living of the worker in the U.S., Europe, etc., may remain about the same while his portion of the product of labor is rapidly reduced.

As for the effect of this scheme of the U.S. economy, it should not be imagined that U.S. foreign aid represents the

slightest bit of charity on the part of financiers here. Most U.S. aid dollars need never leave a NY bank; these deposits in U.S. banks will be used to purchase from U.S. corporations the capital goods exported—the U.S. financier will immediately be paid for his "largesse," while the foreign economy will be in a greater amount of debt to the U.S. bankers! If a small amount of this money does actually leak into colonial native economies, no matter; it will only be used to prime the local pump to further assist U.S. direct investment.

### "Neo-Colonialism"

The "Third Stage of Imperialism" should not be confused with "neo-colonialism," a term which only reflects the confusion with which many observers regard U.S. takeover of the colonial world from the old colonial powers. Economically, there is nothing very new in what these observers term "neo-colonialism;" these forms are only a part of the old "Second Stage of Imperialism."

Neo-colonialism signifies chiefly that U.S. Imperialism has at last succeeded in extending its 1899 "Open Door To China" policy to the entire colonial world. That "Open Door" policy, it should be remembered, was simply a kind of declaration of war on the old colonial powers, in which a bumptious, nascent U.S. Imperialism threw down the gauntlet: "Tear down your customs fences around those colonies we Americans intend to make our property." The granting of national independence to former colonies by old colonial powers—often at the explicit insistence of U.S. Imperialism—merely shows that the U.S. has finally compelled those old powers to knuckle under, to turn the colonial world over to the unhampered exploitation of the dollar.

In the case of the Belgian Congo, for example, it was the U.S. which pressured a reluctant Belgium into granting Congo independence, the same U.S. which backed Belgium invasion of that former colony to the hilt immediately thereafter. The White House does not object to Belgian paratroopers shooting down colonial women and children on an Eichmann scale, merely to Belgian customs officials annoying the emissaries of U.S. capital.

Still "neo-colonialism," occurring at the fulfillment of the Second Stage of Imperialism, does represent the point at

which the Third Stage begins to emerge. The famous CIA flair shows itself in the recently established counterrevolutionary regimes now in the saddle in Algeria, Congo, Ghana, and Indonesia. U.S. and "allied" agents seek out among the nationalists those who show a proper understanding for the capitalist way of life, just as any slumlord might seek out some ambitious lad to take on the problem of dealing directly with the tenants. As the slumlord "sells" the slum building (with, of course, a usurious second mortgage) to the ambitious lad, assuring him that he is now a "financier," so the U.S. agent or one of his ilk paints the delights of capitalist status to the upcoming "boy." "Of course, this will be your very own native industry; we will be content with no more than a first and second mortgage, plus a fair share of any profits which manage to miraculously survive our financial rates."

## **FROM ECONOMICS TO POLITICS**

The main difficulties facing the "Third Stage" enterprise are not economic but political.

The "managed social revolution" involves a radical transformation of institutions and social relations in both the advanced and underdeveloped sectors of the world economy. Any such change is hazardous to the ruling class as it upsets the fabric of established ideologies and institutions on which the social and political stability of the previous period was predicated. Furthermore, the imperialists are compelled to undertake such measures just at the time when the authority of prevailing ideologies and institutions are already being questioned on account of economic disturbances, intensified labor struggles, unpopular wars, and an enormously diminished credibility of their regimes. With the illusions of two decades wearing thin in the advanced sector and the super-exploited sector already aboil, the imperialist is in the position of escaping from a burning house through a pond of boiling oil.

This has been portended in the short-term effects of the Cuban revolution on radicalization throughout the colonial world and, to some extent, in the U.S. itself. It is shown in the wake of the Vietnam war today.

Some significant risk arises for imperialism from its own capitalist factions and from cleavages in the state bureaucracy and political machines. These forces do not represent by any means a conscious monolith, for reasons we have already shown. The polarization of the capitalists and their bureaucracy into a "liberal" and right faction can be the basis for violent cleavages in the imperialist ranks. The present imperialist regime in the U.S. is based on a conscious coalition of financiers, politicians and treacherous

trade union bureaucrats; imperialist interests now impel them toward breaking the trade union bureaucracy coalition, a break which can not be successfully carried through without drastic changes in existing political institutions—laws, forms of government. At every important turn, the most conscious leading layer is hampered by the cretinism of its own social base, creating the danger for it of indecision just at the point when a clear course of policy might be most urgently required.

In the state bureaucracy—as in the corporate bureaucracy—a dramatic change in policy can be accomplished only under conditions of crisis. The leadership that is "ahead of its time" will find its efforts sabotaged by the bureaucracy's rank and file. This phenomenon, bureaucratic cretinism, plays a decisive short-term role in the making of history, tending to cause the leading circles to delay indicated new policies until the latest stages of a crisis, when such innovations are introduced almost too late. This same consideration may reduce the leading circles for a brief period to a condition of indecision, vacillation, in which they are unable to rule effectively. So, it follows, it is almost a law that every such general economic crisis creates at some point an interval of discontinuity in capitalist hegemony at which an effective socialist leadership and movement can intervene successfully to change the course of history. That is the imperialists' greatest hazard.

Large socialist or communist parties are no guarantee in themselves of such an effective leadership, as history since the end of the first world war shows in the case of Germany (several times: 1918, 1923, 1933), France (1945), Italy (1945), Britain (1945). The issue is one of *quality* of socialist leadership, of program. The question, What will be the result of the present threat of general economic crisis? can thus be answered: either we, in the U.S., for example, will create a leadership of revolutionary intelligentsia and develop programs of socialist reindustrialization which win the support of a majority of wage-earners, or U.S. Imperialism or Imperialist-Fascism will succeed in establishing its survival through a Third Stage of Imperialism for another historic period.

**The Third Stage  
of  
Imperialism**

**By**

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Independent Political Action**